



## WHAT ARE IRAN'S DOMESTIC PRIORITIES?

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*Great optimism surrounded Muhammad Khatami's election to the presidency of the Islamic Republic in 1997. Not only did Khatami have an unprecedented electoral mandate, but his presidency also coincided with a sharp rise in oil prices. Khatami had both the mandate and the means to improve the lives of ordinary Iranians. But, after five years, what is Khatami's legacy? He has failed to implement a single substantive reform. Simultaneously, during his tenure as president, the Islamic Republic has undertaken a military spending spree of a scope not seen since the last days of the Shah. Approximately two-thirds, if not more, of Iran's recent \$12 billion windfall has been spent in pursuit of missiles and unconventional weaponry. While Khatami's Iran invests billions in sophisticated weaponry, the quality of life for ordinary Iranians has deteriorated, with inflation, labor unrest, and unemployment climbing sharply higher under his presidency. While Khatami is not mastermind of these deals, he not only has failed to use his bully pulpit to shift attention and debate to the deterioration of the living conditions of most Iranians, but he has also lent his public endorsement to the arms build-up.*

When Muhammad Khatami won Iran's presidential election in 1997, many Iranians were euphoric. One businessman who voted for Khatami explained, "He is an enlightened person, a supporter of economic reforms."<sup>(1)</sup> Students, teachers, women, and laborers took to the streets in spontaneous celebration. Khatami's victory surprised many.<sup>(2)</sup> Most Iranians expected hardline Majlis speaker 'Ali Akbar Nateq Nouri to triumph, especially after the Council of Guardians had disqualified 234 out of 238 presidential hopefuls. However, Khatami, the most reformist of those allowed to run in the election, won decisively.

Various scholars and Iran-watchers, perhaps mesmerized by Khatami's gentle demeanor, immediately labeled the new president a reformist. For example, Columbia University professor and former National Security Council staff member Gary Sick called Khatami, "a reformer with an outspoken commitment to civil society, social justice, the rule of law and expanded freedom."<sup>(3)</sup> Khatami has remained popular while his predecessor as president 'Ali Akbar Hashemi Rafsanjani, whom Sick at that

time could call "a highly popular figure" has become quite possibly the most despised man in Iran today.<sup>(4)</sup> Still, while Khatami's reputation has fared better, five years into his eight-year presidency he has yet to institute a single substantive reform.<sup>(5)</sup>

Western diplomats and journalists continue to pin their hopes for Iran's future almost entirely on Khatami. They are willing to excuse Khatami's failings and place blame for the lack of reform either on obstruction by competing Iranian power centers or on the failure of American policymakers to engage their Iranian counterparts. For example, in reporting Iranian reaction to George Bush's January 29, 2002 speech which included Iran in the "Axis of Evil," The *New York Times* seemed unable to consider that blame for the failure to improve bilateral relations lay with Tehran, and not Washington. Their entire story was based on criticism of U.S. policy by Iranian government figures. 'Ali Reza Haghighi, a Ministry of Islamic Guidance employee was identified only as a local "political science professor."<sup>(6)</sup> The implication is that the true

reformists in Iran are those Khatami controls, and not the millions of Iranians who in October protested against the Iranian government, Khatami included.

Excusing Khatami's failings rests largely upon the unsubstantiated assumption that Khatami's reformist rhetoric is genuine. (In the late 1980s and early 1990s, there was a similar phenomenon with diplomats, the press, and America's Middle East Studies professors labeling Rafsanjani a reformist).<sup>(7)</sup> But blaming only competing power centers implies that Khatami is useless as a partner for engagement and is irrelevant to the true Iran. If hardliners make the important decisions in Iran, then why should Khatami be considered a partner for meaningful dialogue? At the same time, realistically Khatami is not divorced from the levers of power. He has a bully pulpit, from which he has three practical options on any policy pursued by the Islamic Republic: He can endorse the policy, denounce it, or remain silent. When it comes to the Islamic Republic's pursuit of unconventional weapons and ballistic missiles, Khatami has chosen to endorse Iran's expenditures.

Khatami's import to the Islamic Republic is more than just as a rubber stamp to Supreme Leader 'Ali Khamene'i's policies, though. With a gentle air and rhetorical flair, Khatami has succeeded unlike any predecessor in wooing Western sympathy and support. And, despite his failure to implement reforms, after five years Khatami does have a demonstrable record. President of the Islamic Republic during a period of an unprecedented windfall in hard currency as a result of the rise in oil prices, Khatami helped spend billions of dollars to further Iran's military capability. While Khatami is portrayed as a champion of the people by the Western media, he has done incalculable harm to ordinary Iranians. Not only did Khatami not speak out against the Iranian government's military investment, but he directly endorsed it. During the Khatami years, the Islamic Republic has invested unprecedented amounts in Iran's conventional and non-conventional weapons programs.

Speaking on April 18, 2002, Khatami boasted, "Today our army is one of the most powerful in the world... It has become self-sufficient, and is on the road to further development."<sup>(8)</sup> Indeed, while workers strike for unpaid wages and the average Iranian family can afford less meat and bread than at the height of the Iran-Iraq War, the Islamic Republic has spent billions on armament.

### **DESPERATELY SEEKING AN OIL BOOM**

Sometimes billions are not enough. Endowed with a \$12 billion windfall in 2000, the money is now gone. Civil unrest is occurring with increasing frequency in Iran. In October 2001, just over two years after student riots wracked the country, the largest anti-government demonstrations since the Islamic Revolution hit the country. In December, reformist students heckled Khatami at the University of Tehran. Faced with a snowballing crisis at home it is perhaps not surprising that the leadership of the Islamic Republic would seek to promote an oil embargo that would artificially bolster worldwide oil prices.

Accordingly, on April 5, Khamene'i, the most powerful man in Iran, opted to give the Islamic Republic's weekly sermon himself. Since the first days of the Islamic Revolution, every Friday hundreds of students, state employees, and security officials gather at the University of Tehran to listen to a high official deliver a sermon more often related to policy than to religion. The speeches are carried at length by Iranian radio and television, over both of which Khamene'i appointees maintain exclusive control, and so reach a huge audience of Iranians, not only in the big cities like Tehran, Isfahan, and Shiraz but also in tiny, isolated villages of Sistan and Baluchistan.

That the Supreme Leader dedicated his speech to the Palestinians was nothing new, nor was his call for the Palestinian nation to embrace martyrdom, a euphemism for suicide bombings.<sup>(9)</sup> Since the first days of the Islamic Revolution, the ruling clergy has embraced the

Palestinian cause. PLO Chairman Yasir Arafat was the first world leader to visit Ayatollah Ruhollah Khomeini in 1979, upon the success of the Islamic Revolution.(10) The Iranian government has consistently nurtured other Palestinian groups violently opposing the peace process, even helping found Palestinian Islamic Jihad, the only organization in the Sunni world to wholeheartedly embrace Khomeini's concept of clerical rule.(11) Until quite recently, the official budget of the Islamic Republic contained a line item for funding Palestinian terrorism.(12) Material support continues to the present day. In January 2002, the Iranian authorities sold 50 tons of sophisticated weaponry at heavily discounted prices to the Palestinian Authority, despite Arafat's ceasefire declarations.(13)

Nevertheless, while violent and complete rejection of Israel's right to exist remains a core principle of the Islamic Republic, the attention of both Khamene'i and Khatami to the conflict between Israel and the Palestinians has as much to do with the Iranian leadership's simultaneous desire to bolster oil prices and divert public attention from Iran's failing economy. As such, Khamene'i's performance was masterful. In a move calculated to drive world oil prices higher, in concluding his sermon, Khamene'i called for a one-month oil embargo against Israel and "its allies and friends," chief among them the United States. Such a move, Khamene'i predicted, "would shake the whole world."(14) Khamene'i was not sacrificing resources for the sake of principle. Iran has not exported oil to the United States since 1995.(15) Khamene'i's speech, when combined with Iraqi President Saddam Husayn's decision to stop Iraqi oil sales, and the continuing conflict between Israel and the Palestinians, did drive world oil prices higher.(16) However, oil prices quickly stabilized, at levels below the \$30 or \$40 per barrel that the Islamic Republic's economy now needs to stabilize itself.

Accordingly, it became Khatami's turn to try to drive prices higher. In a letter to Qatari ruler Hamad bin Khalifa al-Thani released on April

15, Khatami reiterated Khamene'i's call for an oil embargo, seeking unsuccessfully to panic Western traders.(17) Khatami's strategy was sound. After all, a sharp rise in oil prices not only bailed out a collapsing Iranian economy during Khatami's first term, but also provided Iran with more than a \$12 billion windfall in 2000, and an addition \$3.4 billion in 2001, although, according to Hojjat Ghanimifard, the head of international affairs for the National Iran Oil Company, this amount failed to meet expectations.(18)

### **A CHANCE FOR ECONOMIC SALVATION**

As 1998 came to an end, the outlook for the Iranian economy was bleak. Iran is heavily dependent upon the oil industry. Oil accounts for almost one-quarter of Iran's gross domestic product, and more than 80 percent of Iran's export earnings.(19) Yet some analysts were even predicting that the price of oil could decline to as low as \$5 per barrel, a disastrous level in and of itself for the Iranian government, even if the Iranian economy was otherwise healthy.(20) The Iranian economy was sick, though. In 1998, Iran's current-account balance fell more than \$2 billion in deficit.(21)

Iran's fortunes changed dramatically in 1999, though. Oil began the year at \$10/barrel and tripled by year's end.(22) Iran's current-account balance for 1999 rose in Iran's favor to \$6.6 billion, and nearly doubled again the following year to \$12.6 billion.(23) In 2001, International Monetary Fund reported that Iranian GDP grew 12.5 percent over the previous three years.(24) By sheer luck of timing, in his first term of office, Khatami presided over a \$12 billion foreign reserve windfall, an amount of cash that could fund almost any reformist project Khatami and a parliament dominated by his allies desired.(25)

### **THE KHATAMI DOCTRINE: MILITARY FIRST, PEOPLE LAST**

Khatami came to office with an unprecedented mandate to change the way the Islamic Republic did business. He had won the

support of almost 70 percent of the electorate, and students, women, and the middle class were willing to come out onto the streets to support their new president. As far as most European Union lawmakers were concerned, Khatami's soft words and calls for reform justified accelerating their decade-old policy of critical engagement. For his words alone, the European Union granted Khatami unprecedented freedom of action. And, with billions in the bank, the Islamic Republic's leadership could finance its vision for the future. Just as he did in 1988, Khatami joined hardline factions in their activities despite their contradiction to the well-being of the Iranian people. (As a member of the Islamic Republic's ruling council in 1988, Khatami remained silent if not administratively complicit in the execution of several thousand political prisoners, ordered liquidated by then Supreme Leader Ayatollah Ruhollah Khomeini).(26) .

In March 2001, Khatami traveled to Moscow. While there, he sealed a \$7 billion deal to purchase advanced arms and military equipment from Russia. His defense minister, the force behind the agreement, returned to Moscow seven months later to sign the deal.(27) In other words, while American academics and policymakers debated responsibility for the failure of serious social reform in Iran, Khatami used his unprecedented economic freedom to endorse the expenditure of billions on new and sophisticated weaponry. While others in Khamene'i's circle likely negotiated the Russian arms deal, its scope simply highlighted Khatami's impotence as a partner for engagement. If Khatami truly had no control over the arms purchase, then the Iranian president, despite his title, lacks even the most basic powers regarding issues of budget. That Khatami agreed to sign the deal in person instead of simply remaining silent and distant, implies his strong endorsement for the deal.

Ironically, it was the Shah's military spending that historians of Iran once singled out for such criticism. University of California professor Nikki Keddie, for example, wrote in

her 1981 study *Roots of Revolution* that "the shah's virtual mania for buying large amounts of up-to-date and sophisticated military equipment from abroad had free rein from 1972, when the Nixon administration underwrote the shah as the policeman of the Gulf, and agreed to sell him whatever non-nuclear arms he wished. Western governments and corporations, with the United States in the lead, were happy to sell, with little consideration on either side of possible negative consequences."(28) Yet, if the Shah's arms-purchasing policy damaged Iran, so too does the expensive military build-up pursued by Khatami. (29) In an op-ed piece criticizing President George Bush's "bizarre," "seemingly inexplicable," and "disturbing," foreign policy toward Iran, Keddie neglected to mention Iran's military build-up as a factor concerning American policymakers.(30)

The Islamic Republic's recent purchases are alarming. Despite being awash in oil, the Iranian government is increasingly pouring money into an expensive nuclear program. On March 7, 2002, Viktor Kozlov, director-general of the Russian nuclear firm Atomstroyeksport, announced that Iran's Bushehr nuclear plant would be operational by the end of 2003.(31) Huge sums have already been expended on the Bushehr plant. In 1995, for example, Iran and Russia signed an \$800 million deal in which the Iranian government bought a reactor and 2,000 tons of uranium.(32) Moscow agreed in principle to sell Iran three additional reactors, though after furious American lobbying, the Russian government canceled Iran's purchase of a centrifuge enrichment plant.(33) (The Chinese government, though, was more than willing to take advantage of the cancellation of the Russian centrifuge deal, and supply the Iranian government with technology to enrich nuclear fuel).(34)

The Iranian government's penchant for nuclear components—including those involved in the production of plutonium—is part of an established pattern. Since 1987, Iran has sought to purchase numerous 20-30 megawatt research reactors from Argentina, India, China,

and Russia. Not only do research reactors utilize highly enriched uranium, but they also produce plutonium much more cheaply than do simple nuclear power plants.(35) The Islamic Republic has had considerably more success purchasing gas centrifuges and calutrons—used in the uranium enrichment process—from Switzerland, Germany, Russia, and China.(36) That the Iranian government has also sought from a variety of sources to import technologies used in the separation of plutonium from spent fuel rods, produce uranium yellowcake, and manufacture reactor fuel, adds further suspicion to the reason for Iran's expensive nuclear quest.(37)

The Iranian government repeatedly insists it has every right to build the Bushehr nuclear plant. It does. As a signatory since 1970 to the nuclear non-proliferation treaty, Iran is supposed to make the Bushehr nuclear plant subject to the inspection regimen of the International Atomic Energy Association (IAEA). Nevertheless, Tehran's expensive quest for nuclear reactors does raise legitimate questions of priorities.

The Iranian government now insists that the West has nothing about which to worry since the Bushehr reactor will be subject to IAEA inspection. However, sole reliance upon IAEA inspections does not guarantee compliance. Iraq came very close to creating a nuclear weapon despite IAEA supervision. Regardless, there is nothing stopping Khatami or Khamene'i from suddenly refusing inspections at some point. There is a precedent to legitimize such fears. On April 12, 2002, the Vienna-based Comprehensive Test Ban Treaty Organization, which monitors compliance with the Test Ban Treaty, announced that Iran had ceased its cooperation with the organization.(38) Earlier this year, Hasan Ruwhani, a close confidant of Supreme Leader 'Ali Khamene'i, commented, "The reason that Iran becomes signatory to international conventions is to pave the way for access to modern technology which developed countries have made commitments to provide."(39)

Even if Khatami and the Islamic Republic does fulfill its international obligations in the Bushehr case, there is real anxiety among U.S. government officials that the Bushehr reactor's secondary purpose is to provide cover for imports of other nuclear components.(40) With the infrastructure of much of Khuzistan province still devastated by the Iran-Iraq War now over for 14 years, for example, many Iranians openly wonder whether the billions of dollars Khatami spends on reactors and uranium might not be better spent on hospitals, schools, modernization of factories, and social services.(41)

While the Western media focuses on the Islamic Republic's pursuit of nuclear fission at Bushehr, work continues apace at perhaps one dozen other nuclear research, processing, or reactor sites.(42) Nor is Khatami's recent spending spree limited simply to nuclear components.

The Islamic Republic has a long-established chemical weapons program with roots dating to the middle of the Iran-Iraq War. However, the Islamic Republic accelerated rather than curtailed its program at the end of the war. Much of its progress has come through the purchase of foreign technology. In 1995, for example, the Bundesnachrichtendienst [BND], Germany's intelligence agency, reported that at least three Indian firms had helped Iran equip a factory capable of producing Sarin and Tabun, two of the most deadly nerve agents.(43) Already, by the year prior to Khatami's election, Iran was capable of producing approximately 1,000 tons of chemical weapons per year.(44) Technological improvements accompanying the expansion of European Union-Iran trade make it likely that Iran's chemical weapons production capacity has increased. For example, in March 2000, Iran contracted with the German firm Salzgitter Anlagenbau to build a 1,450-kilogram per hour phosgene generator.(45) Phosgene has legitimate industrial applications but, when weaponized, will cause respiratory failure.

Just four days before Khatami's 1997 election, the U.S. government imposed

sanctions on two Chinese companies suspected of selling Iran materials used to produce chemical weapons.(46) From the analyses surrounding Khatami's election, policymakers might have expected a real break with Iran's past behavior, all the more so after Khatami supporters took control of the Majlis in the February 2000 parliamentary elections. After all, Khatami had the people behind him, and the people overwhelmingly sought real social reform. Such reform could have been marked by a shift in Iran's discretionary spending to better address the Iranian peoples' economic woes.

However, rather than fund schools and social workers, the Iranian government continued its purchase of components necessary for an offensive chemical weapons capability.(47) In spring 2002, Director of Central Intelligence George Tenet reported that China continued to supply Iran with chemical weapons production equipment.(48) Perhaps Khatami alone could not control the financial outlays of Iranian entities like the Islamic Revolutionary Guard Corps (IRGC) and the Revolutionary Foundations (bonyads). However, if the IRGC and the bonyads can access and spend such vast amounts of revenue regardless of their president's promises, then evidence exists to tighten sanctions rather than increase engagement with the Islamic Republic.

There likewise has been little let up in Iran's production of banned biological weapons under the Khatami administration.(49) Regardless of whether those labeled reformers or hardliners--or both, cooperatively--are behind the drive for biological weaponry, Tehran is taking advantage of European willingness to engage and trade with Iran in order to further the Islamic Republic's program. Swiss, German, Italian, and Spanish companies have supplied much of the equipment that now stocks Iran's biological warfare laboratories.(50)

### **IS KHATAMI'S MISSILE ENVY WORTH BILLIONS?**

Because of their international illegality, Iran's quest for weapons of mass destruction

garners much of the negative press attention about the Iranian government's discretionary purchases. However, while Khatami maintains plausible deniability with regard to Iran's chemical and biological weapons, the same cannot be said about Khatami's expenditures on Iran's rapidly increasing ballistic missile program. Much of Iran's recent oil wealth now rests in the coffers of Russian arms export firms, put there by Khatami himself.

By the end of Khatami's first term in office, the Islamic Republic possessed a number of Chinese CSS-8 missiles with a range of 150 kilometers, 300 Shihab-1 missiles with a range of 320 kilometers, 100 Shihab-2 missiles with a range of 500 kilometers, and a "handful" of Shihab-3 missiles with a range of 1,300 kilometers.(51) That the Islamic Republic is actively working on acquiring intercontinental ballistic missile capability is no secret.(52) Khatami has placed his prestige squarely behind Iran's missile program. Following the test of a missile capable of striking Israel, Turkey, and India, he declared, "Iran will not seek permission from anyone for strengthening its defense capability."(53)

If Iran could produce its missiles domestically, then Iran's military would not be such a drain on Iran's hard currency reserves. At present, though, Iranian factories can only produce the Shihab-1 and Shihab-2 missiles. Iran still relies on expensive Russian and North Korean components for the Shihab-3 and Shihab-4 missiles.(54) Khatami likewise relies on the outside world to fill much of his military orders. Indeed, Khatami's \$7 billion spending spree in March 2001 was not limited to the Shihab program, but also netted Iran a variety of other weapons.(55) Following Khatami's trip to Moscow, Russian Deputy Prime Minister Ilya Klebanov pointedly refused to comment on allegations that Khatami purchased Russia's top-range S-300 surface-to-air missile system.(56)

Much of Khatami's spending seemed consistent with a year 2000 Iranian government blueprint to modernize the Iranian military. The plan called for imports of the S-300, SA-

11, and SA-15 missile systems; acquisition of artillery, airplane, and warship production technology; upgrade and overhaul of three Kilo-type Russian submarines; satellite-launch capability (importantly, such capability would also bestow Iran with intercontinental ballistic missile capacity); and training for hundreds at Russian military facilities.(57) Khatami reportedly also sought Kamov Ka-50 attack helicopters and launchers for Iran's Shihab-3 missiles.(58)

Some might see nothing wrong with Khatami spending the greater part of Iran's oil windfall on arms. After all, an argument could be made that there are real threats to Iran's security. While Western governments focused their attention on relations between India and Pakistan following the latter's successful nuclear test, it did not escape Iranians' notice that Pakistan chose a test site just 50 kilometers from the Iranian frontier.(59) Over the past two centuries, Iran has suffered invasions from north, south, east, and west. Iraq's invasion of Iran led to a devastating eight-year-long war that killed more than one-half million Iranians.

However, Iranian arms purchases in 1998, when the Islamic Republic was falling deep in debt and could hardly afford basic civil services for its people, was revealing. Rather than build schools to keep up with Iran's burgeoning population, the Iranian government purchased C-801 and C-802 anti-ship cruise missiles from China. Beijing subsequently promised Washington that it would no longer sell missiles to Iran but, in January 2002, Beijing apparently broke their pledge, delivering a shipment of HQ-7 surface-to-air missiles to Tehran.(60)

The Islamic Republic is a sovereign nation and has every right to arm itself, at least with conventional weapons. However, while Khatami may be acting within international law when he purchases nuclear reactors, missiles, helicopters, and submarines, the scale of his expenditure contrasted with the deteriorating economic conditions for millions of Iranian families raises real questions about both

Khatami's responsiveness to the people who elected him, and where Khatami's priorities lie.

### **THE DAILY STRUGGLE FOR SURVIVAL**

Iran's economy is sick. Despite the rise in oil prices, the governor of Iran's Central Bank announced in March 2002, that Iran's foreign debt now stands at \$20 billion.(61) Faced with such a figure, and not willing to question the Islamic Republic's multi-billion dollar arms build-up or Iran's expensive support for armed groups in Lebanon, Afghanistan, northern Iraq, and the Palestinian territories, Iranian authorities not surprisingly announced that they would not indeed cut oil exports, the life-blood of Iran's economy.(62)

For most Iranians on the street, the argument is academic. Writing in the French newspaper *Le Figaro* last February, historian and analyst Houchang Nahavandi described how bad things had become. "The per capita income in 1977 was \$2,450, and by all accounts this would be equivalent in the year 2000 to \$10,000, close to that of Spain," Nahavandi remarked. "It is, at present, less than \$1,500, near to that of...the Gaza Strip."(63)

As bad as is the situation, under Khatami, life in Iran is getting worse. In a November 2001 report, the Iranian Statistics Center declared 15 percent of Iranians live in "absolute poverty;" and the vast majority of others struggle to survive (64). According to the reformist daily *Hambastegi*, the relative price of basic commodities has increased more than 20 percent over the past 11 years, while salaries have remained stagnant. While the average family at the end of the Iran-Iraq War could buy 100 kilograms of meat per year, today, the average family consumes only 69 kilograms of meat per year. Likewise, at the end of the Iran-Iraq War, the average five-or-six person family could buy 708 kilograms of bread, while today a family of the same size can only afford 626 kilos per year.(65) The adjusted real cost of accommodation, fuel, and electricity has increased 70 percent in four years; likewise, the adjusted real cost of goods and services has

increased by more than 50 percent under Khatami.(66)

### **DESPERATE ACTS FOR DESPERATE TIMES**

Poverty and inability to provide for their families have driven increasing numbers of Iranians to acts of desperation. When not shuttered by the Iranian government, some reformist papers openly discuss such social and economic problems. On February 17, 2002, two articles in the reformist daily *Azad* reported on the phenomenon of “kidneys for sale.” According to *Azad*’s investigation, about forty citizens daily sell a kidney to black market brokers bold enough to set up shop in the alleys just off Tehran’s central Vali ‘Asr Square.

Just as American and British newspapers publish ‘letters to the editor,’ many Iranian newspapers print comments Iranians phone-in from across the country. One February 14, 2002, statement highlighted ordinary Iranians’ frustration at the contrast between their deepening poverty and government officials’ wealth. *Azad* reported, “The son and relatives of the regime’s leaders, who have latched onto the country’s treasury should know that while they are leading grand lifestyles on public funds, in the very heart of the country’s capital, in one of the alleys near the Vali ‘Asr Square, hundreds of citizens offer their kidneys for sale every day. Most of these unfortunate people...are young people whose only wish is to use the money they get in order to buy basic goods for their families.”(67) The corruption to which the newspaper referred has become so common, that the term “aqazadeh” [son of an important person] has entered the local parlance to describe children of politicians who use family influence to make a quick buck.

Prostitution is also on the rise. A July 2000 report authored by Muhammad ‘Ali Zam, director of cultural and artistic affairs for Tehran, claimed that prostitution had increased 635 percent between 1998 and 1999.(68) In February 2001, Iranian authorities arrested a judge in connection with running a prostitution ring involving runaway girls. Abbas ‘Ali

‘Alizadeh, the head of Tehran’s Justice Administration, explained, “This organized team identified girls between 13 to 17 years of age and smuggled them abroad.... Some parents even cooperated with the gang due to the financial benefits.”(69) In December 2001, the conservative daily *Jomhuri Eslami* reported that authorities had broken up a large prostitution ring in the holy city of Qum.(70) The following month, *Kayhan* reported raids on eight brothels in Karaj.(71) While prostitution exists in all societies, the phenomenon in Iran appears directly linked to the decline of the economy under Khatami. According to a January 8, 2002 report in *Entekhab*, there are now 20,000 professional prostitutes in Tehran. Thirteen out of every 45 girls running away from home do not return home and are likely forced to become prostitutes. Every year, thousands of teenage girls run away from home.(72)

Even some members of the clergy publicly acknowledge the problem, and the state’s role in its creation. On March 24, a number of prominent reformers (Khatami not among them) and clergy gathered for a memorial service for Grand Ayatollah Husayn ‘Ali Montazeri’s sister. Montazeri, once Khomeini’s deputy and a frequent critic of human rights abuses under the Islamic Republic, remains under house arrest; the Iranian government refused permission for him to attend. Hojjat al-Islam Hadi Ghabel, a Montazeri supporter, spoke at the service. Regarding the poverty to which most Iranians are now subjected, Ghabel related how girls as young as 13 now engage in prostitution, and asked, “How can it be that under such degrading conditions the regime wastes billions of dollars on worthless programs...?”(73)

The *Aftab Yazd* daily in February 2002 published a comment from a resident of Mashhad. The caller reported, “The economic difficulties faced by the citizens in the last several years are so great that we would not be exaggerating if we said that the absolute majority of the population lives in genuine poverty. For God’s sake, think a little about the



citizens.” The commentary continued, “It is impossible that a small group of masters of the regime and their families should live in luxury, while most of the people are suffering starvation and are facing death.”

Distrust of Khatami and the ruling clique has become so great that Iranians are even willing to blame, perhaps unfairly, the increasing plague of drug addiction on the politician-businessmen. According to the caller, “In our city, Mashhad, the spread of drugs is killing young people, and according to all the assessments, it appears that the authorities are the ones that are distributing the drugs....”(74) In a region where perception is more important than reality, the fact that a prominent newspaper was willing to publish such charges indicates the lack of trust in which many Iranians hold their government. Indeed, an opinion poll published recently in the daily *Azad* showed that 78 percent of the more than three thousand surveyed (in eight different cities) identified drug addiction as a major societal concern. Thirty-nine percent reported prostitution to be a major problem, and 38 percent identified rape to be a major societal problem. The poll further indicated fears over property security rise as the economy worsens. Almost half fear burglary. Seventy-four percent said leaving houses unattended while on vacation was either a “very dangerous” or “dangerous” thing to do.(75) When I lived in Isfahan in 1996, a university professor I knew would remove his car’s ignition wire every time he came home. “Otherwise, my car won’t be there in the morning,” he explained. With the Islamic Republic investing money in armaments rather than civil society, the problem will likely get worse, exacerbated by sharply rising unemployment.

## UNEMPLOYMENT AND LABOR UNREST

Each year, more than 700,000 Iranians seek to enter the work force, yet the Iranian government increasingly struggles to provide just 300,000 new jobs each year. Some critics inside Iran cast doubt on even that figure, and

suggest the real number of new jobs in Iran each year is just 200,000. In other words, up to 500,000 individuals join the ranks of the unemployed each year.(76) More than four million young Iranians remain unemployed, according to Iran’s own labor minister.(77) The highly educated are hit just as hard as the unskilled. In 1999, 11 percent of Iranian university graduates could not find a job. Two years later, the figure had doubled.(78) Unemployment has hit women, once the core of Khatami’s constituency, especially hard. According to Zahra Shojai, Khatami’s advisor on women’s affairs, in the past two years, women’s unemployment has shot up from 30 to 60 percent.(79)

Much unemployment is directly due to Khatami’s monetary policy. While Khatami spent the bulk of Iran’s oil windfall on arms, he has dumped much of the remaining cash on the local market. According to Patrick Clawson, former World Bank senior economist, this makes imports cheap and hurts Iranian industry.(80)

The situation in Iran’s factories is dire. In February, according to reports from Iran, thousands of hospital nurses struck in protest of their low salaries. Teachers are actively organizing for much the same reasons.(81) The same month, hundreds of farmers growing tea picketed the Agriculture Ministry headquarters in Lahijan. They were upset with the government allowing imports of tea, hurting their production. More galling, according to Iranian press reports, was the involvement of several relatives of government officials in the trade.(82) The farmers rightfully saw Iranian oligarchs making a quick buck at the expense of workers struggling to survive.

Textile mills have been especially hard hit. In February, *Keyhan* reported that 2,700 textile workers had not received wages for three months because of “slipshod policy and the absence of investments.” The newspaper reflected how, until recently, textile factories in northern Iran had been the “jewel in the country’s crown.” Over the past two years, hundreds of textile mills have gone

bankrupt.(83) Protests at textile plants in Isfahan have led to the use of force by security forces.(84) In April 2002, Jamshid Basiri, secretary of Iran's Textile Industry Association, said that it should come as no surprise that textile plants are going bankrupt. "This rate of interest [on loans issued by the Iranian government] is double compared with interest rates in other countries which indicates that our government is keen to gain revenue from the bankrupt sector rather than help it."(85)

Many Iranian workers blame Iran's revolutionary foundations for many of the economic problems. The bonyads are multi-billion dollar conglomerates that operate outside of normal Iranian fiscal rules and regulations. For example, the Imam Reza Foundation has estimated revenue of \$20 billion.(86) According to Institutional Investor International, the aggressive business practices of the bonyad-i mostazafan [Foundation of the Oppressed] "have extinguished competition in almost every sector of Iran's economy."(87) While private industry must pay over 50 different taxes, state-owned enterprises and the bonyads are tax-exempt.(88)

In late February, *Keyhan* reported that 1,300 workers at the bonyad-owned Baresh Textile Mills had struck after not receiving their wages for eight months.(89) The February incident was not the first trouble at the plant. After a similar May 2001 peaceful protest, police attacked, injuring 20 workers, and arresting 50.(90) Last year, one bonyad sold a textile factory; the new owners fired the workers, and made a sizeable profit by selling the 40 acres of land upon which the factory once sat.(91) Hojjat al-Islam Ghabel indirectly criticized the bonyads in his March 24 sermon, when he questioned how "leaders of the regime...have taken over the state's treasury, wasting unlimited public funds on acquiring firms and buildings for themselves all over the world!"(92)

## INFLATION

Inflation remains a major problem. While wages remain stagnant, inflation continues to

whittle away at the ability of the average Iranian to provide for his family. In recent years, the inflation rate has peaked as high as 50 percent, at least according to official Central Bank statistics.(93) According to the Budget Committee of the Majlis [Iran's parliament], inflation for March 2002–March 2003) was expected to be about 20 percent.(94) However, 'Ali Reza Mahjub, a Majlis deputy from Tehran, suggested that inflation might actually reach 30 percent.(95)

Speaking before the Majlis, Abdulrahman Taj al-Din, a deputy representing Isfahan, remarked, "If the government cannot improve the economic conditions of millions of wage earners, especially of the workers, it should at least take steps to prevent increased erosion of their wages."(96) Mahjub likewise protested the monthly minimum wage of 800,000 rials (while the official exchange rate is 1,750 rials to the dollar, the actual street rate is closer to 8,000).(97) According to Mahjub, the average family needs 65,000 rials daily simply to cover basic expenses.(98)

The deterioration in the value of the Iranian currency has become so severe that some now openly call for the Iranian government to replace its national currency. Some local economists suggest knocking three zeros off the currency.(99) Until now, the Iranian government has resisted altering the currency, or even adding additional bank notes. Officials fear that the psychological shock might accelerate economic deterioration. At present, the largest bank note is worth just over one dollar. The Iranian government has sought to bypass the need for either new banknotes or a new currency by introducing high-denomination 25,000, 50,000, and 100,000-rial "travelers checks," though these remain unpopular on the Iranian street.

Lack of confidence in the currency also extends to lack of confidence in Iran's state-controlled banking industry (the first private bank is reportedly in the works but had not yet begun operating by May 2002). While visitors to Iran will notice the sheer number of banks seemingly on every street corner, Iranians

explain that this is symptomatic of the lack of popular confidence in their leaders' fiscal policies. The government simply seeks to achieve in quantity what is lacking in quality. In a poll conducted by the Iranian Student News Agency, almost half of the more than three thousand people surveyed said that "accepting checks in commercial transactions" was a "very dangerous thing to do." (100)

Regardless of the near constant presence of state-controlled banks, when I lived in Iran both under Rafsanjani and under Khatami, few Iranians said they would ever trust their savings to the Islamic Republic. Most sought to convert their holdings to dollars as a hedge against inflation, further driving up the street exchange rate. Some would have relatives in the United States or Europe set up accounts into which they could transfer their savings. By some estimates, since the Islamic Revolution, Iranians have sent abroad between \$600 billion and \$1 trillion. (101) Rather than restore popular confidence, five years of Khatami's administration and his questionable spending priorities have actively worsened the situation of the Iranian people.

### **CONCLUSIONS: WHAT IS THE KHATAMI DOCTRINE?**

Muhammad Khatami has had extraordinary opportunities to advance his vision for the Islamic Republic. His 1997 election victory, and the victory of his supporters in the 2000 parliamentary elections, imbued the Iranian president with an unprecedented popular mandate. After all, Khatami won nearly 70 percent of the vote in elections marked by an over 80 percent turnout. In contrast, in the 1993 presidential elections, Rafsanjani won just 62 percent of the vote in elections where turnout barely exceeded 50 percent. (102) Additionally, from 1999 onward, the rise in world oil prices enabled Khatami to finance some real reforms for the people who so overwhelmingly elected him.

Some commentators will insist that hardliners have constrained Khatami's ability to implement reforms, but the sad fact remains

that Khatami has done little to speak up for his reformist allies when he has had freedom to maneuver. (103) It may be difficult for academics, analysts, and journalists to admit error, but increasingly Iran watchers must consider whether Khatami was ever a true reformer, or whether he was just engaged in a carefully choreographed public relations campaign with Khamene'i, the man who permitted Khatami to run for president in the first place. Western policymakers are correct to encourage reformers in Iran, but are mistaken in assuming that the vanguard of the reformist movement is invested in Muhammad Khatami, a cleric who has previously written that only with years of Shi'i religious training should one be permitted to participate in Iran's "democracy." (104)

Khatami may not be a reformer but, after five years in office, he does have a legacy. Just as did the Shah in his last years, while the Iranian economy fails, Khatami has endorsed the expenditure of billions on nuclear reactors and sophisticated weapons. Khatami could have remained distant and telegraphed his disapproval, but he instead agreed to affix his signature to a \$7 billion arms purchase. While laborers go without wages, Khatami defends massive investment in the Shihab missile program. When workers and students peacefully protest, the Iranian government uses force to disperse the crowd. It should be no surprise that, during a December 2001 speech at Tehran University, reformist students at Tehran University heckled the president, chanting, "Khatami, Khatami, Honesty, Honesty." (105) Likewise, Western commentators who still trumpet Khatami as the personification of reform and the savior of the Islamic Republic should take heed of an Iranian Student News Agency poll conducted this spring in Mashhad, in which 88 percent of those surveyed called on the President to be more in touch with the people. (106)

If the United States and the European Union want to help the Iranian people, the message from Iranian reformers is that Khatami is no longer their man. Rather than implement

reform, the Khatami doctrine appears to be 'speak softly, while Iran builds a big stick.' Khatami's actions etch a clear record. For American and European governments, the lesson should be clear. Western policy must be based on reality rather than wishful thinking.

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